

AR37

QUEENSTON

GOLD MINES LIMITED

**Annual
Report
1978**

QUEENSTON

GOLD MINES LIMITED

W. F. Atkins
R. G. Brawn
E. Connelly
R. M. Gray
J. W. Killick
V. K. Travis

DIRECTORS

V. K. Travis, Chairman of the Board
R. M. Gray, President
E. E. Goring, Secretary
W. J. Muns, Treasurer

OFFICERS

Crown Trust Company, Toronto, Ontario

TRANSFER AGENTS

Montreal Stock Exchange

STOCK EXCHANGE

Deloitte Haskins & Sells, Toronto, Ontario

AUDITORS

Suite 908, 40 University Avenue
Toronto, Ontario
M5J 1T1

HEAD OFFICE

March 30, 1979
Toronto, Ontario

ANNUAL MEETING

QUEENSTON

GOLD MINES LIMITED

To the Shareholders:

Your Directors herewith submit the Company's balance sheet, statement of deferred expenditures, changes in financial position together with the Auditors' Report thereon covering the financial year ended September 30, 1978, and a brief summary of the Company's activities.

Exploration and administration expenditures for the year totalled \$148,590 (\$69,409)* while income totalled \$138,175 (\$2,153)* for a net expenditure for the year of \$10,415 (\$67,256)*. At year end, the Company had working capital of \$6,835 (deficiency \$121,750)* and securities with a market value of \$273,210 (\$209,740)*.

Mineral Property Holdings

The Company, by its acquisition of a number of properties in November 1977, owns outright or holds a major interest in gold prospects totalling 398 claims, 16,874 acres, most of which are located in the Kirkland Lake area, Ontario (Figure 1). Of these, 19 claims are subject to a production royalty agreement with Willroy Mines Limited, and 127 claims are encompassed by an exploration agreement with the Canadian Nickel Company Limited and its gold exploration program east of Kirkland Lake, Ontario. A separate 70 claim group forms the basis of the recently launched Kirkland Lake West Project set out to investigate the gold potential of the Kirkland Lake Gold Structure and the Larder Lake Gold Structure west of the currently producing Macassa mine. Also included in the Company's holdings are the Upper Canada and the Upper Beaver mines in the Kirkland Lake area, and the Pandora-Amm mine in Cadillac, Quebec. These mine properties have been significant gold producers in the past and remain with additional recommended target areas warranting further exploration.

* Comparative figures for 1977 are bracketed.

Gold Royalty – Gracie-East Property

During the year your Company obtained its first gold mining royalty payments through an agreement with Willroy Mines Limited and production from the Gracie-East property. This property and others totalling 19 claims are jointly owned with Willroy, owner-operator of the Macassa mine, and adjoin the mine at the western extension of the Kirkland Lake "Main Break" Gold Structure. Over the 10-month period ending September 30, 1978, Queenston received royalty payments totalling \$118,867 from the production of ore totalling 26,128 tons and 12,245 ounces of recovered gold.

Reserves on the property at December 31, as stated by Willroy Mines Limited, were:

	1978		1977	
	Tons	Grade oz. gold per ton	Tons	Grade oz. gold per ton
Proven	63,316	0.43	21,245	0.4795
Indicated	34,700	0.49	15,900	0.5169

The substantial increase in reserves resulted from a large development program undertaken in the Macassa mine during the year. With continued favourable gold prices and anticipated average cost increases, production should continue from the Gracie-East property at approximately 2,500 tons per month in conjunction with the overall operations at the Macassa mine.

Canico Project

The Canadian Nickel Company Limited (Canico), a subsidiary of Inco Limited, continued its exploration program during the year and spent an estimated total of \$172,206 to December 31, 1978, bringing total expenditures on the project since 1976 to an estimated \$769,079. Canico has complied with all obligations of the agreement to December 31, 1978 and must complete an additional estimated expenditure of

\$180,921 in 1979, and total expenditures of \$1,300,000 by December 31, 1980, to earn its first interest (40%) in the properties.

As reported in the 1977 Annual Report, last year's drill program, which ended in December 1977, confirmed the location of the Larder Lake Structure at two locations, 3,000 and 12,600 feet west of the Anoki shaft on the Queenston property. Also reported was a low grade gold bearing horizon, the Munro Zone, tested over a strike length of 1,600 feet. This latter zone was first intersected by Biroco Kirkland Mines Limited in 1944, who reported an intersection of over 70 feet grading .085 oz./gold per ton.

During the past year, Canico acquired options on the 15-claim Wadasa Property and the 11-claim Darmac Property, and undertook grid geological mapping and geophysical surveys over these and portions of the adjoining Queenston-Munro properties. Results on the Wadasa option were not sufficiently encouraging to warrant further work and the option was dropped on December 31, 1978. Relogging of old core and additional mapping in the vicinity of the Queenston Gold prospect was also completed.

Since the project was initiated in the summer of 1976, Canico has undertaken a methodical and thorough analysis of the geology surrounding the Queenston-Anoki gold prospects and the possibilities for new mineralization to the west under the prevailing sand flats in this region. This program has outlined a large area of essentially untested favourable geology containing possibly two potential gold bearing geological horizons. The project properties are at a mature stage of primary exploration and it is hoped that a large drill program will be initiated in 1979 to test their combined highly rated gold potential. This program is currently under consideration by Canico.

Kirkland Lake West Project

In the summer of 1978, your Company launched a new gold project to investigate the gold potential of both the Kirkland Lake "Main Break" Gold Structure and the Larder Lake Gold

Structure in the southwestern corner of Teck township, west of the operating Macassa mine.

The Kirkland Lake "Main Break" Gold Structure, regarded as Canada's richest single gold deposit, stretches over a relatively linear strike length of approximately 20,000 feet and has been mined from surface to a depth greater than 8,000 feet. Production on this structure was initiated in 1913, and over the combined 311 year life of the seven famous Kirkland Lake mines including the Toburn, Sylvanite, Wright-Hargreaves, Lake Shore, Teck-Hughes, Kirkland Lake Gold and Macassa, a total of approximately 22.6 million ounces of gold have been recovered from approximately 50.25 million tons of ore. The Macassa mine, the remaining operation on the Structure, produces roughly 60,000 ounces of gold from 120,000 tons of ore annually.

The northern portion of the Kirkland Lake West Project properties encompasses an interpreted 6,000-foot southwestern extension of the Kirkland Lake "Main Break" Gold Structure. This, in turn, is within 2,000 feet of the current mine workings on the Gracie-East property and particularly for this reason, has an excellent gold bearing potential. The southern portion of the project properties encompasses the western extension of the Larder Lake Gold Structure for a distance of over 12,000 feet. This second geological feature lying roughly 6,000 feet south of the Main Break Structure is the focus of a number of current gold exploration programs further to the east, including the Canico project and that of Newmont Exploration of Canada Limited and Kerr Addison Mines Limited. Its gold potential is most often equated with that of the Kerr Addison deposit being mined at Larder Lake, 25 miles on strike to the east.

In June and July of 1978, a limited field program of geological mapping and geophysics was undertaken over the southern portion of the project area to review the geological environment surrounding the Larder Lake Break Gold Structure and the gold deposits at the old Crescent and Golden Gate mine sites under option from Gateford Mines Limited. Compilation of all past work on the project properties was also

initiated. The combined properties of the Kirkland Lake West Project are viewed as an excellent gold prospect by your Company and efforts are being made to initiate a major exploration program here in 1979.

Mine Properties

The wholly-owned Upper Canada, Upper Beaver and Pandora mine properties were reviewed during the year, in light of their current reserves or indicated gold zones and the strengthened price of gold. Although the indicated gold zones on the respective properties are insufficient by themselves to justify renewed mining operations at this time, each property has a number of recommended target areas that could lead to gold discoveries of economical importance. Possible options for further exploration on these properties are being considered.

Federal-Provincial Geoscience Survey – Kirkland Lake Area

On January 24, 1979, the Honourable James A. C. Auld, Minister of Natural Resources for Ontario, announced a Federal-Provincial \$2.3 million geoscience survey would be undertaken over 24 townships in the Kirkland Lake area, during the next four years. This program, the first of its kind in Ontario, will consist of airborne surveys, drilling, geological mapping and geo-technical studies of gold and uranium deposits among other studies. The minister stated "The main reason for going ahead here is that we are convinced the mineral resource potential of the area has not yet been fully realized." The design of the program will be such as to

increase exploration in the area and to make follow-up exploration by mining companies easier and less costly.

This program will be of significant value to your Company's large holdings and interests in the Kirkland Lake area. Progress and results of the various surveys will be monitored closely and followed up, where advisable.

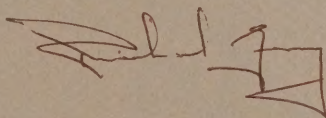
Investments

The Company continues to hold shares in Bankeno Mines Limited and Turbo Resources Limited which had a combined market value of \$273,210 at September 30, 1978. Bankeno in turn holds a 25% carried interest in Arvik Mines Ltd., which latter company owns a large zinc-lead deposit in the Canadian Arctic. Also, Bankeno holds a 1.74% interest in Panarctic Oils Ltd., and varied interests in oil and gas permits in the Canadian Arctic.

At this time, your Directors wish to record their appreciation for the effective efforts of Mr. J. C. McBean who retired from the Board after 8 years of strong support.

Details concerning the forthcoming Annual Meeting to be held on March 30, 1979, in Toronto, are set out in the accompanying Notice, Information Circular and Proxy.

Respectfully submitted
On behalf of the Board of Directors

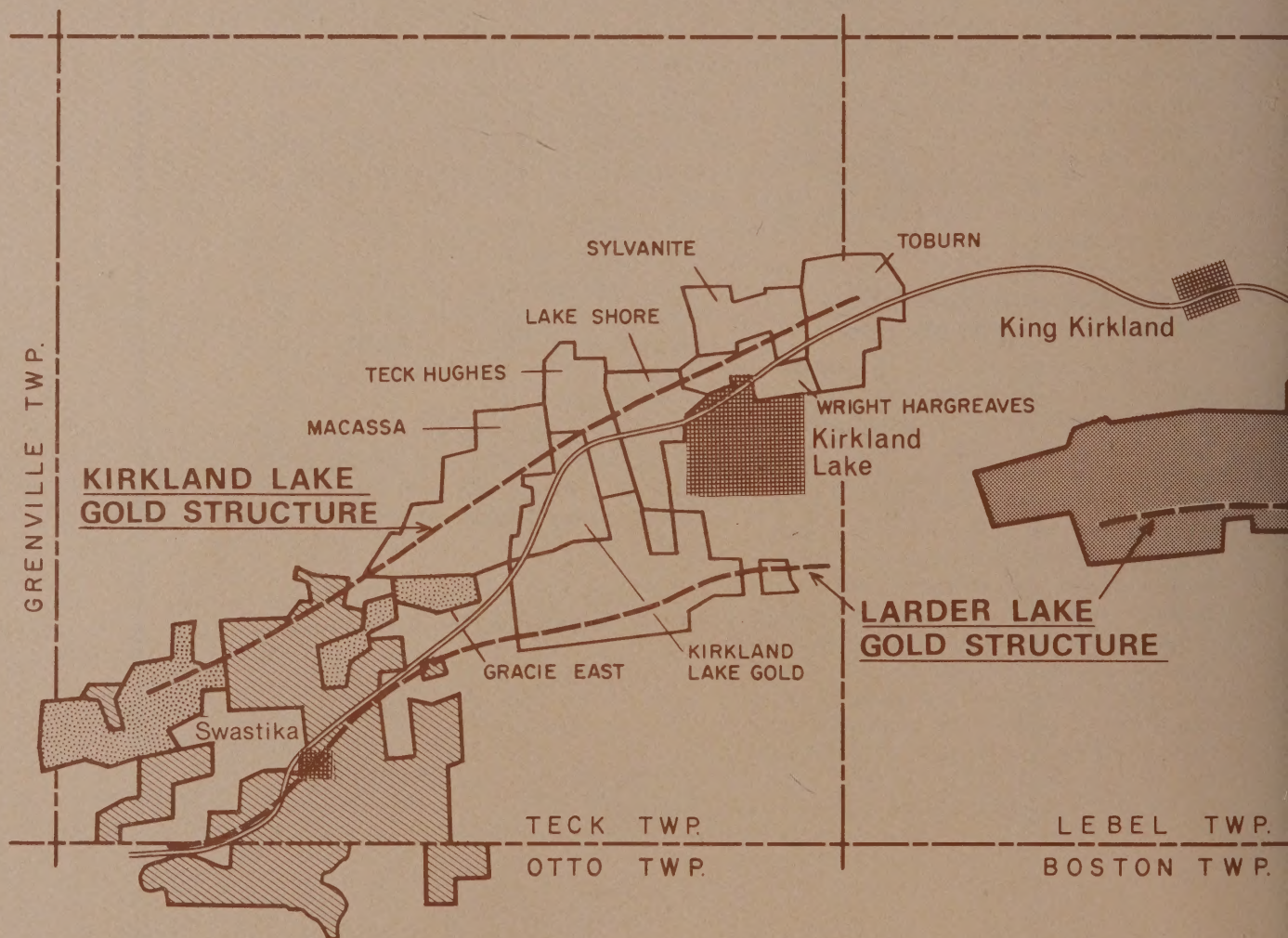


Toronto, Canada
February 23, 1979

R. Michael Gray
President

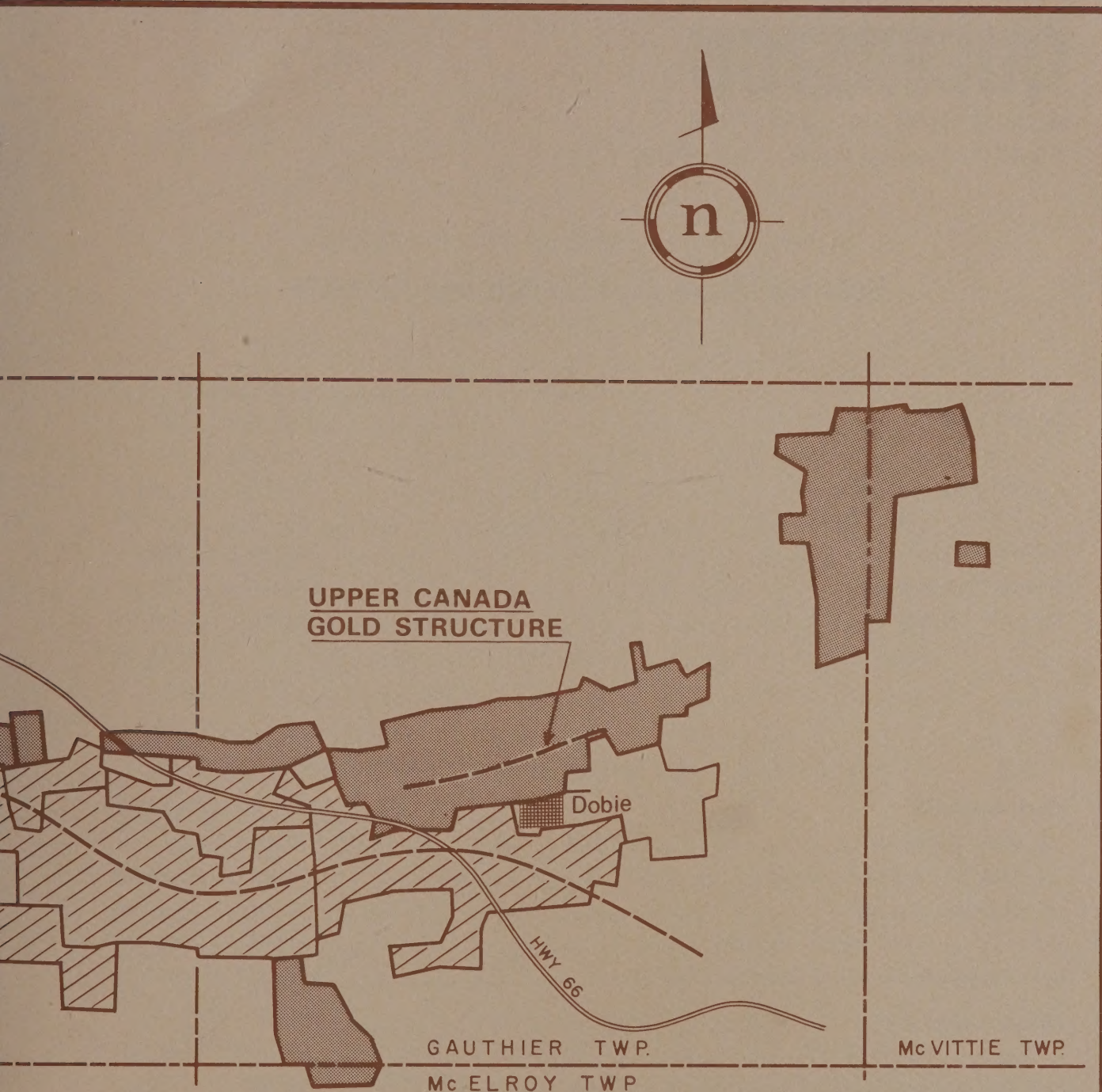
QUEENSTON GOLD MINES LIMITED PROPERTY INTERESTS

-  CANICO PROJECT
-  KIRKLAND LAKE WEST PROJECT
-  QUEENSTON - WILLROY PROPERTIES
-  OTHER PROPERTY INTERESTS



PRODUCTION: KIRKLAND LAKE GOLD STRUCTURE
(1913 TO 1978 - 311 MINE YEARS)

Approximately 50,250,000 tons
22,600,000 gold ounces



QUEENSTON GOLD MINES LIMITED

PROPERTY LOCATION MAP

KIRKLAND LAKE AREA - ONTARIO

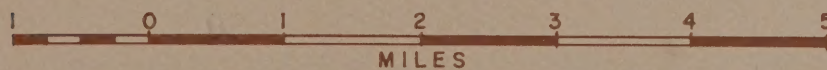


FIGURE 1
DEC. 31 / 78

QUEENSTON

GOLD MINES LIMITED

(Under The Business Corporations Act, Ontario)

Balance Sheet as at September 30, 1978

(with prior year's figures for comparison)

ASSETS

Current Assets:	1978	1977
Cash	\$ —	\$ 17
Accounts receivable	48,728	1,169
Total current assets	48,728	1,186
Investments (Note 2)	274,759	272,759
Mining Properties (Note 3)	784,618	383,368
Deferred Expenditures	1,266,627	1,256,212
Total	<u>\$2,374,732</u>	<u>\$1,913,525</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:	1978	1977
Bank indebtedness	\$ 7,876	\$ —
Due to associated company	12,628	87,668
Accrued charges	21,389	35,268
Total current liabilities	41,893	122,936
Note Payable to Associated Company (Note 5)	242,250	—
Shareholders' Equity:		
Share capital (Note 6)	2,075,421	1,775,421
Retained earnings (unchanged during the year)	15,168	15,168
Total shareholders' equity	2,090,589	1,790,589
Total	<u>\$2,374,732</u>	<u>\$1,913,525</u>

Approved by the Board:

R. MICHAEL GRAY, Director

V. KENNETH TRAVIS, Director

The accompanying notes are an integral part of the financial statements.

QUEENSTON

GOLD MINES LIMITED

STATEMENT OF DEFERRED EXPENDITURES

For the Year Ended September 30, 1978

(with prior year's figures for comparison)

	1978	1977
Exploration and Development:		
Realty, school and acreage taxes	\$ 7,382	\$ 312
Exploration costs	37,844	12,339
Consulting fees	29,306	2,640
Expenditures for the year	74,532	15,291
Less related sundry income:		
Royalty	118,867	—
Rentals and miscellaneous	19,308	2,153
	138,175	2,153
(Decrease) increase for the year	(63,643)	13,138
Balance at beginning of the year	983,365	970,227
Balance at end of the year	919,722	983,365
Head Office and Administration:		
Capital tax	1,864	1,470
Interest	14,432	7,424
Legal and audit	18,617	27,797
Management fee	1,167	7,000
Office	1,517	429
Printing and stationery	5,780	2,663
Salaries	17,716	—
Transfer agent and registrar fees	6,650	7,064
Travel	6,315	271
Increase for the year	74,058	54,118
Balance at beginning of the year	272,847	218,729
Balance at end of the year	346,905	272,847
Total Deferred Expenditures	\$1,266,627	\$1,256,212

The accompanying notes are an integral part of the financial statements.

QUEENSTON

GOLD MINES LIMITED

STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended September 30, 1978

(with prior year's figures for comparison)

	1978	1977
Working Capital Provided — issue of capital stock for cash	\$ 300,000	\$ —
Working Capital Applied:		
Net expenditures	10,415	67,256
Acquisition of mining properties from related companies (net of 6% note payable of \$242,250)	159,000	—
Purchase of investment	2,000	—
Total	171,415	67,256
Increase (Decrease) in Working Capital	128,585	(67,256)
Working Capital (Deficiency) at Beginning of the Year	(121,750)	(54,494)
Working Capital (Deficiency) at End of the Year	\$ 6,835	\$ (121,750)

The accompanying notes are an integral part of the financial statements.

Auditors' Report

To the Shareholders of
Queenston Gold Mines Limited:

We have examined the balance sheet of Queenston Gold Mines Limited as at September 30, 1978 and the statements of deferred expenditures and of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at September 30, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
February 2, 1979

Deloitte Haskins & Sells
Chartered Accountants

QUEENSTON

GOLD MINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

September 30, 1978

1. Significant Accounting Policies:

Mining properties

Mining properties include the cost of acquisition of patented and unpatented claims, buildings, leases and agreements, and are recorded at cost. These costs will be amortized against income if the properties are brought into commercial production or charged against retained earnings if the properties are sold or abandoned.

Deferred expenditures

It is the policy of the company to defer all such expenditures less related sundry

income and recoveries. These costs, substantially all of which relate to properties in the Kirkland Lake area of Ontario, will be amortized against income if the properties are brought into commercial production or charged against retained earnings if substantially all of the interests in this area are sold or abandoned.

Investments

Investments are recorded at cost unless there has been a permanent decline in their value, in which case the investments are written down to recognize the loss.

2. Investments:

Investments consist of the following:

	1978			1977		
	Number of Shares or Warrants	Cost	Market Value	Number of Shares	Cost	Market Value
Turbo Resources Limited:						
Class B						
common	2,500	\$ 5,859	\$ 16,875	—	\$ —	\$ —
Warrants	2,500	—	7,125	—	—	—
Challenger International Services Ltd. (formerly Upper Canada Resources Limited)	—	—	—	5,000	5,859	8,500
Bankeno Mines Limited	117,000	266,900	249,210	117,000	266,900	201,240
Laberada Mines Limited	750,000	2,000	No market	—	—	—
		<u>\$ 274,759</u>	<u>\$ 273,210</u>		<u>\$ 272,759</u>	<u>\$ 209,740</u>

In accordance with a public offering made to shareholders of Challenger International Services Ltd. on July 7, 1978, the shares of Challenger were exchanged for Class B shares and warrants of Turbo Resources Limited. The shares of Bankeno Mines Limited are lodged

with a Canadian chartered bank as security for the company's line of credit with the bank. The shares of Laberada Mines Limited represent a 25% interest in that company which owns 42 mining claims in the Kirkland Lake area, Ontario.

3. Mining Properties:

Mining properties consist of:

(a) 280 wholly owned mining claims and 74 mining claims held under various option agreements all in the Kirkland Lake area, Ontario and the Cadillac area, Quebec and a 50% interest in 19 mining claims, subject to a royalty agreement with Willroy Mines Limited	\$764,618
(b) The Upper Canada mine and mill buildings, Dobie, Ontario ...	20,000
	<u>\$784,618</u>

Acquisition of mining properties:

Upon approval of the shareholders, obtained at a meeting held October 24, 1977, and after approval of the Montreal Stock Exchange, Challenger International Services Ltd. purchased, for cash, 2,000,000 shares of the company at 15 cents per share, and the company acquired Challenger's mining properties and buildings for \$262,250 payable partly by cash (\$20,000) and partly by way of a note (\$242,250), and the properties of Pandora Limited and Upper Kirkland Mine Limited for \$139,000 cash.

4. Income Taxes:

Under the provisions of the Income Tax Act, exploration and development expenditures are deductible in determining taxable income. Any expenditures not deductible in a given year may be carried forward and applied against future income. The company has approximately \$449,600 of expenditures so available. In addition, the company has losses for tax purposes of approximately \$31,900 which may be carried forward and applied to reduce future taxable income after application of all exploration and development expenditures.

The availability of these losses expires as follows:

1979	\$ 6,800
1980	7,900
1982	17,200
	<u>\$31,900</u>

5. Note Payable to Associated Company:

The note payable of \$242,250 bears interest at the rate of 6% per annum, is repayable as to principal in ten annual instalments of \$24,225 each plus interest and is convertible as to principal annually in the amount of \$24,225 into shares of the company at 15 cents per share. At the year end, interest of \$12,300 was accrued. Subsequent to the year end, the first principal payment due was converted into shares.

6. Share Capital:

Share capital consists of the following:

	1978	1977
Authorized shares, without par value	<u>10,000,000</u>	<u>6,000,000</u>
Issued and fully paid	<u>6,700,000</u>	<u>4,700,000</u>
Paid up capital	<u>\$ 2,075,421</u>	<u>\$1,775,421</u>

Upon approval of the shareholders obtained at a meeting held on October 24, 1977, the company increased its authorized capital from 6,000,000 shares to 10,000,000 shares and issued 2,000,000 shares for a cash consideration of \$300,000 (see Note 3).

Also, during the year the Board of Directors approved a stock option plan for employees of the company. 335,000 authorized and unissued shares were allocated for a period of up to five years to be optioned upon approval by the Board of Directors at a price not less than market, less the maximum discount allowed by the Montreal Stock Exchange. At year end, no options had been so approved by the Board of Directors.

7. Exploration Agreements:

(a) Canadian Nickel Company Limited

In 1976, the company and Challenger International Services Ltd. entered into an agreement with Canadian Nickel Company Limited (Canico), in which Canico was granted the option to earn up to a 65% undivided interest in a group of claims in the Kirkland Lake area in which Queenston had a 75% undivided interest and Challenger had a 25% undivided interest. During the year ended September 30, 1978, Queenston acquired Challenger's 25% interest in the mining claims and its interest in the Canico agreement.

Under the terms of the Canico agreement, Canico could earn a 40% undivided interest in the group of claims by making a cash payment of \$100,000 and incurring exploration expenditures totalling \$1,300,000 on the claims as follows: a cumulative total of \$300,000 by December 31, 1977; a further \$300,000 by December 31, 1978; a further \$350,000 by December 31, 1979; and a further \$350,000 by December 31, 1980. Up to September 30, 1978, Canico has complied with the terms of the agreement and has incurred exploration expenditures approximating \$743,000 to September 30, 1978. If Canico fails to earn its 40% undivided interest in the claims, the ownership of the claims will revert to Queenston. Canico can earn an additional 25% undivided interest therein by making further exploration expenditures of \$1,350,000 by December 31, 1983. The agreement provides for Canico to finance exploration of the claims to a feasibility stage and subsequently for the parties to contribute pro rata to the financing of any mining venture. Each party's interest in the claims will be reduced in accordance with the agreement to the extent that it fails to contribute its proportionate share of such financing. If, pursuant to the foregoing, Queenston's interest is reduced to 10%, this interest shall be automatically converted into a 10% royalty on the net proceeds from mine operations on the claims. Also, under the agreement, Canico has acquired, or holds under option, certain mining claims in which Queenston could earn a 35% interest.

(b) Willroy Mines Limited

In November 1977 the company purchased from Challenger International Services Ltd. its 50% interest in 19 mining claims and its interest in a royalty agreement, with Willroy Mines Limited. The agreement calls for Willroy, in mining these claims, to pay a royalty based on the mining profits.

(c) Gateford Mines Limited

On March 7, 1978, the company entered into an option agreement to purchase 25 mining claims in the Kirkland Lake area, Ontario, from Gateford Mines Limited. Queenston paid \$4,000 on signing the agreement and, subject to expending \$500,000 on the claims by May 23, 1983, has the option to purchase the claims with option payments totalling \$148,500 by May 23, 1984. The first option payment of \$5,000 is due May 23, 1979 and the first option expenditure of \$50,000 is to be completed by November 23, 1979. If any part of the property is brought into production, the company is required to pay to Gateford Mines Limited a royalty based on production.

8. Remuneration of Directors and Senior Officers:

Remuneration of directors and senior officers, as defined by The Business Corporations Act, Ontario, was \$40,716 (1977 - nil).

9. Anti-Inflation Program:

Under the federal government's anti-inflation program, the company is subject to mandatory compliance with legislation which controls shareholder dividends. The controls, as they apply to the company, expire on October 13, 1978.

10. Prior Year's Figures:

The 1977 figures, shown for comparison, were reported on by another firm of Chartered Accountants. Accordingly, they are not covered by the opinion of Deloitte Haskins & Sells. Certain of the 1977 figures have been reclassified to conform with 1978 presentation.

